

## Message Text

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PAGE 01 MANAGU 02252 132326Z  
ACTION SS-25

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FM AMEMBASSY MANAGUA  
TO SECSTATE WASHDC 3170

S E C R E T MANAGUA 2252

EXDIS

STADIS

FOR ASSISTANT SECRETARY TODMAN FROM AMBASSADOR

E.O. 11652: GDS  
TAGS: EAID, NU  
SUBJECT: AID PROGRAM FUNDING LEVELS FOR NICARAGUA, FY 1977-79

REF: (A) MANAGUA 1506, (B) MANAGUA 1507

1. LATE LAST YEAR WE UNDERTOOK A WIDE-RANGING REVIEW OF THE AID PROGRAM STRUCTURE AND FUNDING LEVELS PROJECTED FOR NICARAGUA IN FY 1977-79 PERIOD. I PERSONALLY DIRECTED THIS REVIEW WHICH INVOLVED ALL KEY MEMBERS OF THE COUNTRY TEAM. THE PROGRAM REVIEW CONCLUDED THAT:

A. THE AID PROGRAM IS AN IMPORTANT INSTRUMENT OF POLITICAL INFLUENCE WHICH HELPS US MAINTAIN MUTUALLY COOPERATIVE AND BENEFICIAL RELATIONS WITH GON, AND SHOULD BE MAINTAINED.

B. THE PROGRAM HAS ENTERED A NEW, POST-EARTHQUAKE RECONSTRUCTION PHASE (WHILE DISBURSEMENTS CONTINUE THROUGH MID-1979, NO ADDITIONAL U.S. RECONSTRUCTION ASSISTANCE CONTEMPLATED) WHICH NO LONGER JUSTIFIES THE LARGE-SCALE AID LOAN AND GRANT PROGRAM THAT CHARACTERIZED OUR ASSISTANCE IN WAKE OF MANAGUA EARTHQUAKE.

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SECRET

PAGE 02 MANAGU 02252 132326Z

C. THE AID PROGRAM AND STAFF (PRESENTLY 38 DIRECT HIRE AMERICANS) SHOULD BE REDUCED OVER THE FY 1977-79 PERIOD, AND BEYOND, TO BRING IT INTO LINE WITH LIMITED U.S. POLITICAL INTERESTS IN NICARAGUA AND GON CAPACITY TO OBTAIN INTERNATIONAL AND DOMESTIC FUNDS TO FINANCE DEVELOPMENT.

D. PROGRAM REDUCTION SHOULD BE GRADUAL AND MAINTAINED AT LEVEL (ABOUT \$8-10 MILLION AFTER FY 1979) THAT ENABLES US TO MAINTAIN OUR INFLUENCE, AVOID PREJUDICING THE SUCCESS OF ONGOING PROGRAMS (SUCH AS INVIERNO) THAT HELP THE RURAL POOR, AND DEMONSTRATE OUR SOLIDARITY WITH DEVELOPMENT ASPIRATIONS OF NICARAGUA'S POOR MAJORITY.

2. THESE GENERAL CONCLUSIONS WERE INCLUDED IN MY MEMORANDUM TO USAID DIRECTOR DATED NOVEMBER 1, 1976, COPIES OF WHICH WERE SUBSEQUENTLY FORWARDED TO THEN DIRECTOR ARA/CEN (MARVIN WEISSMAN) AND ACTING ASSISTANT AID ADMINISTRATOR (DONOR LION). IN THE MEMORANDUM, IT WAS NOTED THAT USAID/NICARAGUA CONCURRED WITH GRADUAL PHASE DOWN OF AID PROGRAM AND STAFF AND THE FOLLOWING SPECIFIC AGREED FUNDING LEVELS FOR FY 1977-79 (LOAN AND GRANT TOTALS) WERE ESTABLISHED: FIFTEEN (15) MILLION FOR FY 1977, TWLEVE AND A HALF (12.5) MILLION FOR FY 1978, AND TEN (10) MILLION FOR FY 1979. THESE AID PROGRAM CEILINGS FOR NICARAGUA WERE SUBSEQUENTLY INSERTED IN THE PARM DOCUMENT ALONG WITH FULL RATIONALE.

3. FURTHERMORE, PERSISTENCE OF HUMAN RIGHTS ABUSES BY SOMOZA REGIME AND EVIDENCE OF LARGE-SCALE WASTE OF GON'S OWN FUNDS DUE TO WIDESPREAD OFFICIAL CORRUPTION (ESPECIALLY ON GON PROCUREMENT CONTRACTS WITH THIRD COUNTRIES), WHICH IS FOSTERED AND CONDONED BY PRESIDENT, STRENGTHENS ARGUMENT FOR AID PROGRAM REDUCTION AND FURTHER POLITICAL DISTANCING FROM SOMOZA REGIME. AID PROGRAM IS WIDELY PERCEIVED BY ANTISOMOZA OPPOSITION TO BE LEGITIMIZING PROP OF SOMOZA REGIME AND EVIDENCE OF U.S. SUPPORT FOR SOMOZA.

4. DEPARTMENT SHOULD CAREFULLY SCRUTINIZE FOR POLITICAL IMPLICATIONS  
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PAGE 03 MANAGU 02252 132326Z

TIONS FINAL APPROVAL AND AUTHORIZATION OF SPECIFIC AID LOANS AND GRANTS AS WELL AS OVER-ALL PROGRAM LEVELS. A MECHANISM SHOULD BE ESTABLISHED, IF ONE DOES NOT ALREADY EXIST, FOR CLOSE DEPARTMENTAL MONITORING AND REVIEW OF ALL AID LOAN AND GRANT PROPOSALS FOR NICARAGUA IN VIEW OF SENSITIVITY OF POLITICAL CONSIDERATIONS NOW FACING ALL ASPECTS OF U.S. TIES WITH NICARAGUA, INCLUDING AID RELATIONS.

5. DEPARTMENT IS URGED TO ENSURE THAT AUTHORIZED FY 1977-79 LOAN AND GRANT TOTALS KEEP WITHIN AGREED FY CIELINGS, WHICH WILL PROBABLY REQUIRE ELIMINATION, DELAY OR REDUCTION IN SIZE OF SOME PROPOSALS. IN THIS CONNECTION, THE \$5 MILLION RURAL MUNICIPAL DEVELOPMENT LOAN PROPOSAL RECENTLY SUBMITTED TO AID/WASHINGTON SHOULD NOT REPEAT NOT BE AUTHORIZED IN FY 1977 BUT SHIFTED TO FY 1978. WE RECOGNIZE THAT AID MUST HAVE FLEXIBILITY IN SHIFTING LOAN AND GRANT PROPOSALS BETWEEN FISCAL YEARS FOR AUTHORIZATION PURPOSES, BUT SUCH SHIFTING SHOULD NOT LEAD TO EXCEEDING CEILINGS.

6. THIS MATTER IS BEING BROUGHT TO YOUR ATTENTION TO ASSIST YOU

AND DEPARTMENT IN YOUR EFFORT TO MORE CLOSELY COORDINATE AND  
HARMONIZE ALL ELEMENTS OF OUR FOREIGN POLICY IN PURSUIT OF U.S.  
INTERESTS IN NICARAGUA. DEPARTMENT'S RECOMMENDATIONS AND SUGGESTIONS  
REGARDING OUR AID POLICY PROPOSAL ARE URGENTLY REQUESTED.  
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